CITY OF FRESNO

EMPLOYEES RETIREMENT SYSTEM

EMPLOYEE HANDBOOK

Revised January 2000

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Introduction

Purpose of the Plan

Your membership in the City of Fresno Employees Retirement System (Plan) is very important to you. Participation in the Plan helps you plan and save for retirement and your future financial security. The Plan is designed to reward you for your service to the City.

Purpose of this Plan Summary

The Retirement System has prepared this summary as a convenience to Plan members. This Summary includes brief descriptions and explanations of the Plan's major provisions.

If there is any difference between this summary and the provisions of the laws that govern the Plan, the legal provisions will prevail.

It is also important to recall that the retirement provisions of the Fresno Municipal Code are amended from time to time. While the Retirement Office will exercise its best efforts to keep this handbook current, that will not always be possible. We recommend contacting the Retirement Office when you have an important question. Ask the staff to put their responses in writing. Remember that oral representations will not bind the Retirement Board.

Plan History

On June 1, 1939, the City of Fresno established the Employees Retirement System (Plan). The Plan is set forth in Article 18 of Chapter 2 of the City of Fresno Municipal Code and is administered by the Employees Retirement Board.

Management and Administration of the Plan

The system is managed by a five member Board of Retirement. Representation on the Board is as follows:

Two Members:	One elected by blue collar members and the other elected by white collar and management members
Two Members:	Two city management employees appointed by the Mayor and approved by the City Council
One Member:	Elected by the other four members of the Board

The Retirement Board has a number of roles. The Board contracts for investment consulting services, investment management services, legal and actuarial services, securities lending services, and monitors the performance of the Plan's investments. The Board also oversees the administration of the retirement benefit process, conducts formal and informal hearings on benefit applications, and decides on employee and retiree requests for various services. In addition to other responsibilities, the Retirement Board is responsible for ensuring that the Plan remains in compliance with applicable local, state and federal laws.

Regular Retirement Board meetings are normally held on the second Wednesday of each month at 2:00 p.m. Meetings are open to the public. Requests to the Board should be submitted in writing to the City Retirement Office at:

City of Fresno Retirement Office
2600 Fresno Street, Room 2170
Fresno, CA 93721
tel: (559) 498-1341

Applications for retirement benefits, refunds, death benefits, and other requests for information regarding benefits should be directed to the Retirement Office.

Plan Membership

Who is eligible?

Permanent full-time employees of the City of Fresno, except, for example, sworn Fire and Police personnel and Airport Public Safety personnel, are eligible to participate in the Plan. The City Manager, City Clerk, City Attorney, Department Heads or Council Assistants, who are not already a member, may negotiate other retirement benefits if such an agreement is established by resolution of the Council.

Employees working in limited, interim, provisional, temporary, seasonal, or part-time positions are not eligible to participate in the Plan. Elective officers and members of Boards and commissions are also not eligible to participate.

Is participation mandatory if I'm eligible?

Yes, participation is mandatory for all eligible employees except in the following two cases. Participation is optional for the following:

- the City Manager, City Attorney, City Clerk and Department Heads
- Council Assistants

as provided in the Fresno Municipal Code (FMC) Section 2-1813.

When do I join the Plan?

You join the Plan on your date of hire from a civil service list to a permanent full-time position, i.e., an eligible position. If you transfer from an ineligible to an eligible position, you will begin participating on the first day following the transfer.

What am I required to do?

At the time you are hired for a permanent full-time position, you will be required to complete and submit a Member's Enrollment Form. This document is very important to you and to the Plan. It requires you to provide the name(s) and the relationship(s) of the beneficiar(ies) to receive your benefits in the event of your death. **You should always keep your beneficiary designation up to date.**

Once you have made a beneficiary designation, you can change it at any time by completing forms available in the Retirement Office. Once completed and submitted, the most recent beneficiary designation will be used to distribute some of your benefits in the event of your death. If you die without a surviving qualified spouse, surviving dependent minor children or financially dependent parents, or without naming a beneficiary, any benefits to which you are entitled will be paid to your estate. *You should update your beneficiary form when you get married or divorced, after the birth of a child, or any such major change in your life.*

Contributions to the Plan

Do I have to contribute to the Plan?

Yes. All participating members are required to contribute to the Plan. Your contributions are made through regular payroll deductions. The Municipal Code is structured so that employee contributions, plus the interest on these funds, make-up approximately one-third of the cost of the employee benefits. Since January 16, 1986, your contributions are made on a pre-tax basis. This means that your contributions are not taxed until they are distributed from the Plan.

Does the City contribute to the Plan?

Yes. The City contributes approximately two-thirds of the cost of the benefits, plus any amounts needed in addition to employee contributions to provide for current and future benefits. The amount of the City contribution is determined each year after an actuarial study of the Plan.

How are my contributions determined?

The amount you are required to contribute to the Plan will be determined based on your age when you are hired for a full-time, permanent position with the City. The younger you are when you begin participating, the longer the time period between your entry into the Plan and your retirement, and thus the lower your contribution rate. Contributions are a percentage of your City pensionable pay. Overtime and certain other forms of compensation are not included as part of your City pensionable pay for purposes of determining your contributions.

Can my contribution rate change?

Yes. The Retirement Board retains an actuarial firm to perform comprehensive cost studies of the Plan. Studies of this type are conducted annually. Based on the results of these studies and the recommendations of the actuaries, the Retirement Board may adjust the contribution rates.

Do my contributions earn interest?

Yes. Interest is credited to your contributions on the last day of each month. The interest rate is set by the Retirement Board, based on an actuarial review of the Plan.

How will I know the accumulated amount of my employee contributions?

At the beginning of each fiscal year (July 1 to June 30), you will receive a statement showing your employee contributions and accumulated interest in the Plan as of the last day of the prior fiscal year.

Can I lose or forfeit my contributions?

No. Your contributions plus the interest credited to your account belong to you and cannot be forfeited. Upon retirement, you may no longer receive a refund of contributions. Instead, you will begin receiving a retirement benefit. In the case of divorce, all or part of your contributions may be assigned to a former spouse, in accordance with the terms of a domestic relations order issued by a court.

Earning Service Credits

What is service?

Service refers to the amount of time you have been a City of Fresno employee participating in the Plan. Service is used to determine when you are eligible to retire as well as the amount of your benefit at retirement.

How is service earned?

A "year of service" is earned for every ten months of City service in a permanent, full-time position in any fiscal year. If you work for less than ten months you may receive a partial year of service.

If you participate in DROP, your years of service are based on your City employment prior to entering DROP. (See *Deferred Retirement Option Program* on page 27 of this booklet.)

What happens if I take a leave of absence?

- **Unpaid Military Service**

  "Military service" means service with any of the United States armed forces while you retain your status as a City of Fresno employee. The Plan recognizes military service and credits service just as though you had remained on the job; however, leaves of absence due to annual armed forces reserve commitments do not count as military service.

  While on military service, you do not have to contribute to the Plan.

- **Other Unpaid Leave**

  If you are on any type of unpaid leave of absence, you will not earn service or be eligible to contribute to the Plan.

What happens if I am rehired by the City?

If you terminate employment and later are rehired in a permanent full-time position, you will re-enter and begin earning service on your rehire date. If you left your contribution in the System when you terminated employment, you are in deferred vested status. When you are rehired, you simply continue to add service credit to your prior total. The time you were absent from City service will not count toward your retirement.

If you took a distribution of your contributions when you terminated employment, you can restore your prior service credit if you redeposit your previously withdrawn contributions. In addition, you will have to deposit additional funds to cover interest that your contributions would have earned had you never withdrawn them from the Plan.

How can I redeposit my withdrawn contributions and thereby regain my previous service?

You can repay your contributions and interest in either a single lump-sum payment or bi-weekly installment payments. The installment repayment period cannot be longer than the lesser of five years or the length of your absence. If you choose the installment method, you must also deposit an amount equal to the interest on the unpaid balance over the period you are making installments at the interest rate currently being credited to employee contributions during the repayment period.

Will my contribution rate be different when I am rehired?

Yes. Your rate will change if you buy-back your previous service or if you left your contributions in the Plan while you were away. If you did one or the other, your new rate will be based on your age when you first joined the Plan, increased by the number of complete years you were gone from the City.

Termination of Employment

What if I terminate employment before I retire?

The City recognizes that today's work force is much more mobile than in the past. Our Plan, while rewarding long term service and commitment to the City, allows individuals who leave City employment before retiring a means of preserving their previous years of service.

What happens to my contributions?

You have several options with regard to your contributions when you terminate employment with the City.

- **Withdrawal of member contributions and interest**

  If you terminate employment you may withdraw your contributions. Withdrawal of Contribution Forms must be completed and forwarded to the Retirement Office during your termination process. Withdrawal requests are processed at the end of the next month following your last City pay day. (For example, an employee terminating City employment on October 15 could expect a refund on November 30.)

  When you withdraw your contributions, you will also receive the accumulated interest. Your after-tax contributions are not subject to taxation at the time of withdrawal because they were taxed as earnings at the time they were contributed to the Plan; however, since January 16, 1986, employee contributions have been made on a pre-tax basis. This means you have not paid income tax on either your contributions or the interest credited to your account. Therefore both your pre-tax contributions and interest will be subject to income tax (and possibly a federal excise tax for early withdrawal) at the time of withdrawal.

  If you take a withdrawal, the Retirement Office will issue an IRS Form 1099-R to be used when you file your taxes.

You can defer income and excise taxes on your pre-tax contributions and accumulated interest by requesting the Retirement Office to roll over these amounts to an individual retirement account (IRA). By choosing a rollover to an IRA, you preserve the tax-deferred status of these amounts and defer income taxes until they are distributed from the IRA. You may also rollover to other tax-qualified retirement plans, provided certain IRS rules are satisfied. We recommend that you consult with qualified tax counsel if you are considering this option.

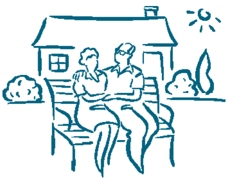
Separation/Termination after Five Years of Service

If you separate or terminate City service after completing five years of service in the Plan, you have the following options:

- Leave your contributions and interest on deposit in the Plan. When you reach retirement age, you will be eligible to begin receiving monthly benefits. This option preserves not only your contributions, but also the City contributions needed to fund your monthly benefits. **For this option, it is your responsibility to contact the Retirement Office when you approach retirement age to arrange for your benefits to begin. Keep in mind that, if you delay filing for your benefits, you will not be paid benefits for the period before you filed your application.** ***Instead, your benefit will be processed based on a retirement date consistent with the date that the Retirement Office receives your application.***
- Receive your contributions and interest as a single lump-sum payment. Pre-tax contributions and interest will be included in your taxable income and the Retirement Office will issue an IRS Form 1099-R to be used when you file your taxes.
- Roll over your pre-tax contributions and interest to, for example, an IRA. This option avoids current income taxes and defers taxes until you take a distribution from your IRA.

You have 90 days after separation from the City to make an election concerning your contributions. If you do not make an election before the end of 90 days, the Municipal Code requires the Plan to refund your contributions and interest. By withdrawing your contributions and interest, you give up all rights to any other benefits from the Plan.

Retirement Decisions



When can I retire?

You can retire when you are vested and meet certain age requirements.

How do I become vested?

Being "vested" entitles you to Plan benefits funded by the City's contributions. This entitlement is unaffected even if you terminate City Service before retiring, provided that you leave your contributions and interest on deposit with the Plan. You are vested when you complete at least five years of service.

You are always vested in your employee contributions and accumulated interest.

Service Retirement Benefits

How do I qualify for service retirement benefits?

You are eligible for service retirement benefits if you have completed at least five years of service, terminate service, have left your contributions and interest with the Plan and are at least:

- age 55, or
- if your termination from City service is permanent and was caused by a layoff due to an economy measure, lack of work, budget cut-back, or elimination of your position, you can retire at age 50.

How are my service retirement benefits determined?

Your service retirement benefits are based on your years of service and your final compensation. Your monthly benefit equals the sum of (1) and (2) multiplied by (3) and then by (4):

(1) 2% multiplied by years of service (up to 25), plus

(2) 1% multiplied by years of service over 25. The sum of (1) and (2) is multiplied by your

(3) final compensation, which is then multiplied by your

(4) retirement age factor.

- **Final Compensation**
  "Final compensation" generally means your average monthly salary during the highest three consecutive years of service with the City . Final compensation does not include such items as overtime pay, cash-outs of unused vacation days paid at termination, and bonuses or awards paid because of your proficiency rather than additional job responsibilities. Please note, however, that this is simply a paraphrase. The actual and controlling definitions can be found in Fresno Municipal Code Section 2-1801(g).

Your final compensation is determined using your retirement date (or DROP date if earlier) and the pay rate for each position step you held during your highest three years of City service.

For example, during her last three years of City service, Jane, a management analyst, worked at steps D for one year and E for two years when the steps' monthly pay rates were $3,000 and $3,500, respectively. When Jane retired at age 55, the pay rates for those steps were $3,500 and $4,083. The higher pay rates at retirement age will be used to produce a final compensation of $3,889 [($3,500 x 12 months + $4,083 x 24 months) ÷ 36 months].

Retirement Age Factors

Your retirement age factor is based on your attained age at the end of the calendar quarter before your retirement date. For example if you reached age 58 on September 7 and your retirement date is October 1, your retirement age factor is 1.060.

Age	Exact Age	Exact Age +1 Quarter	Exact Age +2 Quarters	Exact Age +3 Quarters
55	1.000	1.005	1.010	1.015
56	1.020	1.025	1.030	1.035
57	1.040	1.045	1.050	1.055
58	1.060	1.065	1.070	1.075
59	1.080	1.085	1.090	1.095
60	1.100	1.110	1.120	1.130
61	1.140	1.150	1.160	1.170
62	1.180	1.190	1.200	1.210
63	1.220	1.230	1.240	1.250
64	1.260	1.270	1.280	1.290
65+	1.300	Add .01 for every quarter after age 65		

How is my service retirement benefit calculated?

Suppose Pat retires at age 55 after 32 years of service and her final compensation is $3,750. Her monthly Service Retirement benefit equals $2,137.50.

(1) 2% multiplied by 25 years of service = 50%

plus

(2) 1% multiplied by 7 years of service after the first 25 years = 7%

(3) the sum of (1) and (2) is multiplied by her $3,750 final compensation = $2,137.50 (57% x $3,750)

which is then multiplied by her

(4) 1.000 retirement age factor = $2,137.50 ($2,137.50 x 1.000)

How can I estimate my service retirement benefits?

Estimated Service Retirement As a Percentage of Final Compensation

	Age at Retirement					
Years of Service	***55***	***56***	***57***	***58***	***59***	***60***
5	10.00%	10.20%	10.40%	10.60%	10.80%	11.00%
6	12.00	12.24	12.48	12.72	12.96	13.20
7	14.00	14.28	14.56	14.84	15.12	15.40
8	16.00	16.32	16.64	16.96	17.28	17.60
9	18.00	18.36	18.72	19.08	19.44	19.80
10	20.00	20.40	20.80	21.20	21.60	22.00
11	22.00	22.44	22.88	23.32	23.76	24.20
12	24.00	24.48	24.96	25.44	25.92	26.40
13	26.00	26.52	27.04	27.56	28.08	28.60
14	28.00	28.56	29.12	29.68	30.24	30.80
15	30.00	30.60	31.20	31.80	32.40	33.00
16	32.00	32.64	33.28	33.92	34.56	35.20
17	34.00	34.68	35.36	36.04	36.72	37.40
18	36.00	36.72	37.44	38.16	38.88	39.60
19	38.00	38.76	39.52	40.28	41.04	41.80
20	40.00	40.80	41.60	42.40	43.20	44.00
21	42.00	42.84	43.68	44.52	45.36	46.20
22	44.00	44.88	45.76	46.64	47.52	48.40
23	46.00	46.92	47.84	48.76	49.68	50.60
24	48.00	48.96	49.92	50.88	51.84	52.80
25	50.00	51.00	52.00	53.00	54.00	55.00
26	51.00	52.02	53.04	54.06	55.08	56.10
27	52.00	53.04	54.08	55.12	56.16	57.20
28	53.00	54.06	55.12	56.18	57.24	58.30
29	54.00	55.08	56.16	57.24	58.32	59.40
30	55.00	56.10	57.20	58.30	59.40	60.50
31	56.00	57.12	58.24	59.36	60.48	61.60
32	57.00	58.14	59.28	60.42	61.56	62.70
33	58.00	59.16	60.32	61.48	62.64	63.80
34	59.00	60.18	61.36	62.54	63.72	64.90
35	60.00	61.20	62.40	63.60	64.80	66.00
Age Factor	1	1.02	1.04	1.06	1.08	1.1

Estimated Service Retirement As a Percentage of Final Compensation

	Age at Retirement				
Years of Service	*61*	*62*	*63*	*64*	*65*
5	11.40%	11.80%	12.20%	12.60%	13.00%
6	13.68	14.16	14.64	15.12	15.60
7	15.96	16.52	17.08	17.64	18.20
8	18.24	18.88	19.52	20.16	20.80
9	20.52	21.24	21.96	22.68	23.40
10	22.80	23.60	24.40	25.20	26.00
11	25.08	25.96	26.84	27.72	28.60
12	27.36	28.32	29.28	30.24	31.20
13	29.64	30.68	31.72	32.76	33.80
14	31.92	33.04	34.16	35.28	36.40
15	34.20	35.40	36.60	37.80	39.00
16	36.48	37.76	39.04	40.32	41.60
17	38.76	40.12	41.48	42.84	44.20
18	41.04	42.48	43.92	45.36	46.80
19	43.32	44.84	46.36	47.88	49.40
20	45.60	47.20	48.80	50.40	52.00
21	47.88	49.56	51.24	52.92	54.60
22	50.16	51.92	53.68	55.44	57.20
23	52.44	54.28	56.12	57.96	59.80
24	54.72	56.64	58.56	60.48	62.40
25	57.00	59.00	61.00	63.00	65.00
26	58.14	60.18	62.22	64.26	66.30
27	59.28	61.36	63.44	65.52	67.60
28	60.42	62.54	64.66	66.78	68.90
29	61.56	63.72	65.88	68.04	70.20
30	62.70	64.90	67.10	69.30	71.50
31	63.84	66.08	68.32	70.56	72.80
32	64.98	67.26	69.54	71.82	74.10
33	66.12	68.44	70.76	73.08	75.40
34	67.26	69.62	71.98	74.34	76.70
35	68.40	70.80	73.20	75.60	78.00
Age Factor	1.14	1.18	1.22	1.26	1.3

EXAMPLE	PAT	YOUR CASE
(1) Age at Retirement or DROP entry	55	___________
(2) Total Service at Retirement or DROP entry	32 Years	___________ Years
(3) Final Compensation	$3,750.00	$___________ Per Month
(4) Percentage of Compensation from table on pages 15–16	57.0%	___________%
(5) Service Retirement benefit (line 3 x line 4)	$2,137.50	$___________

How and when do I apply for service retirement benefits?

You must file a written application with the Retirement Office. In order to complete all the necessary retirement documents, you should schedule an appointment with the Retirement Office about two to three weeks before you plan to retire. If you have left City employment and your employee contributions in the System, it is important to file as soon as you are eligible. If you delay, you will not receive any benefits for the period prior to your application.

Is my benefit higher if I retire after age 55?

Yes. If you qualify for service retirement and retire after age 55, your service retirement benefit is increased to reflect your later retirement date. This adjustment is reflected in the retirement age factors. (See *How are my service retirement benefits determined?* on page 11.)

How will my retirement date affect my benefit?

Your retirement date will affect your Plan benefit in a number of ways. Your age at retirement will affect the amount of your benefit. Also, if you plan to retire around June 30, you may wish to choose a retirement date that falls on or before June 30 so as to be eligible for the inflation adjustment discussed next. (See the next section, *Will my benefit be adjusted for inflation?*)

Will my benefit be adjusted for inflation?

Yes. Every July 1, all retirement and survivor benefits are adjusted to reflect changes in the Consumer Price Index (CPI). This cost of living adjustment is based on the increase in the CPI over the previous calendar year. The CPI index used is the United States City average for urban wage earners and clerical workers (all items).

5% is the maximum adjustment that can be applied in any year; however, if the increase in the CPI over the prior calendar year was more than 5%, the excess is “banked.” This means that the excess can be used in the following years’ cost-of-living adjustments in years where the cost of living is less than 5%.

For example, suppose in one year the percentage increase in weighted average monthly compensation is 7%. All monthly paid benefits are increased by 5% (the maximum adjustment allowed), and the remaining 2% is banked. Then suppose the increase for the following year is 3%. The extra 2% from the prior year will be used to bring the 3% adjustment up to the maximum 5% (3% + 2%).

Are there any limitations on the amount of my benefit?

Yes. The Plan is subject to the limits of Internal Revenue Code (IRC) Section 415. If your retirement benefits are affected by IRC Section 415, the Retirement Office will inform you.

Does health coverage continue during my retirement?

Continued coverage under the City’s health plans is available to retirees and spouses. The retiree, however, bears the full cost of retaining the health care coverage. If you qualify for Medicare coverage at age 65, a supplement to Medicare is available at a reduced cost under both City health plans.

Will Social Security affect my Plan benefit?

No. The amount you receive as a benefit from the Plan is independent of your other retirement income sources, including Social Security.

Since the City does not contribute to Social Security, your City employment may affect your eligibility for Social Security benefits. We encourage you to consult with the Social Security Administration about your eligibility for Social Security benefits.

What is the latest date I can start to receive my retirement benefits?

Benefits must begin no later than the April 1 following the year you reach age 70½ or retire, whichever is later. If you are affected by this rule, the Retirement Office will contact you.

Benefit Payment Options

Do I have a choice of payment options?

Yes. The Plan provides certain automatic forms of payment, depending upon your marital status at retirement. If you would rather take an optional form of payment, however, you must make this election with the Retirement Office. Following are the automatic forms of payment which will apply unless you have chosen one of the options. The automatic form of payment is called the **unmodified allowance**.

- **Married Members.** If you are married at the time you retire, your spouse is a "qualified spouse." The **unmodified allowance** payable during your lifetime equals your service retirement benefit. If you have a qualified spouse who survives you, your qualified spouse receives 50% of the benefit which was payable during your lifetime. This benefit continues to your spouse until he or she dies. Please see *What death benefits are payable after I retire?* on page 25 for information about benefits payable to your surviving minor children and any parents who are dependent upon you for their financial support.

- **Unmarried Members.** If you are not married when you retire, retirement benefits are paid over your lifetime only in an amount equal to your service retirement benefit. Following your death, no benefits are automatically payable to your beneficiary.

What are the Plan's optional forms of payment?

If you are married, you can elect an optional form of payment. The election of an optional form results in a reduction to your service retirement benefit. The reduction will apply only to the portion of the benefit which is not automatically continued to your qualified surviving spouse (or minor children or financially dependent parents, as the case may be).

If you are single and elect an optional form of payment, the reduction is applied to the full benefit.

All optional forms of payment are "actuarially equivalent" to your service retirement benefit. This means that a portion of the benefits otherwise available for payment over your lifetime are used to provide additional payments to your beneficiary. This results in a reduction to your service retirement benefit. The reduction is based on your age and the age of your beneficiary.

- **Option 1 — Cash Refund Annuity.** This option provides you with a reduced monthly lifetime benefit so that if the total of the benefits paid over your lifetime amounts to less than your contributions and interest, the difference is paid to your beneficiary in a single lump-sum payment. In addition, following the death of a married member, a qualified surviving spouse will receive a monthly benefit equal to 50% of the benefit paid during the member's lifetime. The qualified surviving spouse will receive benefits until death.

- **Options 2 and 3.** These options provide the surviving beneficiary various percentages of the benefit paid over the member's lifetime, up to the full amount the member received. Please make an appointment with the Retirement Office if you would like more information about these options. The Retirement Office will be glad to provide you with sample calculations, showing how these options will affect your benefit and the amounts payable to your beneficiary.

Disability Benefits

What happens if I become disabled before retiring?

You will receive a disability benefit from the Plan if you have completed at least 10 years of service when you become disabled. To be "disabled" you must be permanently unable to perform your duties because of a physical or mental incapacity.

If you terminate service, you can apply for a disability benefit within four months of your last day, provided you have been disabled since your last day.

The Retirement Board determines whether a member who files a disability application qualifies for a disability benefit. To verify that a disability continues, the Retirement Board can exercise its discretion and require any disabled member younger than age 55 to have a medical examination by a Board-selected physician. If the member is no longer disabled, he or she shall be reinstated to a position of the same class as the one held before the disability.

If you are participating in DROP, you should refer to the "Deferred Retirement Option Program" section of this booklet to learn about your disability benefits.

How is the disability benefit determined?

Disability benefits are based on your years of service and your final compensation. The monthly disability benefit, generally, is either (1) or (2), whichever is greater:

(1) The service retirement benefit, or

(2) The greater of (A) or (B):

(A) If years of service are more than 18.518 years, 1.8% of final compensation multiplied by years of service.

(B) If years of service are less than 18.518 years, 1.8% of final compensation multiplied by projected years of service. (Service is projected to the member's 55th birthday.) However, this amount cannot be more than $^1/_3$ of the member's final compensation.

How is the disability benefit calculated?

Suppose Terry becomes disabled at age 49 after 22 years of service. His final compensation is $3,000.

(1) Terry does not qualify for a service retirement benefit because he is younger than age 55. This part of the disability benefit formula does not apply.

(2) The greater of (A) or (B):

(A) 1.8% times $3,000 times 22 years of service = $1,188

(B) Terry has more than 18.518 years of service so this portion of the formula does not apply.

Terry's monthly disability benefit is $1,188.

How do I apply for disability retirement benefits?

Applications for disability retirement benefits are available at the Retirement Office.

Do I have to do anything while receiving disability retirement benefits?

Yes. If you are receiving disability retirement benefits, are less than age 55, and are gainfully employed in a non-City job, you must report your total earnings from all non-City jobs. Forms will be provided for this report on a quarterly basis. If the total of these earnings plus your disability retirement benefits from the Plan is more than the current pay rate for your last held City position, your disability benefit will be reduced by the excess amount. Any reduction in disability benefits will stop when you reach age 55.

Death Benefits

What happens if I die before *retiring?*

The Plan provides for pre-retirement death benefits in the following three situations. Although you are entitled to designate a beneficiary for these benefits, your surviving spouse or unmarried children under age 18 or your parents if they are financially dependent upon you nullify any other designation.

- **Before vesting.** The Plan provides for a death benefit if you die before completing five years of service:

  - while a City employee in a permanent, full-time position, or
  - within four months after no longer holding a permanent, full-time position with the City.

  Your beneficiary will receive a single lump-sum payment equal to your contributions and accumulated interest plus one month's salary for each year of service, up to a maximum of six months of salary.

- **After vesting but before age 55.** The Plan provides the following death benefits if you die before retiring and before attaining age 55, and after completing five or more years of service.

  If you leave a surviving spouse or child or children under 18, or parents who are dependent upon you for financial support, they may choose to receive either the lump-sum benefit described above or a monthly benefit equal to 50% of your service retirement benefit. This benefit is calculated as if you were age 55, and is based on your final compensation and years of service at the time of your death.

- **After vesting and after age 55.** If you die after completing five or more years of service and after age 55, your qualified surviving spouse or children or dependent parents are entitled to a monthly benefit. This benefit equals 50% of your service retirement benefit and is based on your final compensation and years of service at the time of your death.

What death benefits are payable after I retire?

The Plan provides death benefits to your qualified spouse, and also, in certain circumstances, to your minor children and dependent parents.

- **Qualified Spouse**. If you die after retiring and leave a qualified spouse, benefits will be paid to your qualified spouse according to the optional form of payment you elected. Your surviving spouse is a qualified spouse if you were married before your retirement date.

- **Minor Children**. If your qualified spouse dies and your children are younger than 18 and unmarried, the Plan provides a monthly benefit to your minor children. This benefit equals the amount payable to your qualified spouse, and each child (or the child's guardian on behalf of the child) will continue to receive his or her share of this benefit until each marries or reaches age 18.

- **Dependent Parents.** If you die and you are not survived by a qualified spouse or minor children, but are survived by parents who depend upon you for financial support, the Plan will pay death benefits to your parents. This benefit will be payable for your parents' lifetimes.

If you chose an optional form of payment, death benefits will be based on the specific option.

When and how should my beneficiary(ies) apply for death benefits?

Your beneficiary or executor of your estate must contact the Retirement Office to complete the necessary documents no later than one year following your death or, in the case of a minor, following the date of appointment of a guardian.

Deferred Retirement Option Program (DROP)

What is DROP?

DROP is a voluntary program and is an alternative way of receiving benefits under the Plan. If you elect to participate, **you cannot work for the City more than 10 years after the date you join DROP.** When you join DROP, you then decide whether to have your service retirement benefit paid as an unmodified allowance or as Option 1 (the cash refund annuity – see the *Benefit Payment Options* for descriptions of these two forms of payment options). These DROP decisions are irrevocable. **Once these decisions are made you cannot change your mind**, even if your personal or family circumstances change dramatically after you begin participating in DROP.

Who is eligible to participate in DROP?

Any Plan member who has not retired before **January 1, 1998,** and who is at least age 55 and has completed at least five years of service can elect to participate in DROP.

How does DROP work?

If you elect to join DROP, you:

- Agree to participate up to a maximum of 10 years. While your DROP participation can be shorter than 10 years from the date you join DROP, it cannot be longer than 10 years.
- Select the payment form of your service retirement benefit. You have a choice of either an unmodified allowance or Option 1, the cash refund annuity.
- Stop earning any other benefits under the Plan (although you will still receive cost-of-living adjustments in your monthly benefit, if applicable).
- Stop making contributions to the Plan.

- Begin earning DROP benefits in a DROP account held in your name. Each month the Plan will credit your DROP account with the monthly service retirement benefit that you had earned before you joined DROP. Each month, your account will be credited with interest. The Retirement Board determines the interest rate for each fiscal year (July 1 to June 30). Please note that your DROP account is a bookkeeping account only. This means that the value of your DROP account is not associated with any specific asset in the System's portfolio. At retirement, you have the right to the dollar value of your account through the various DROP distribution options available.
- Begin to receive your service retirement benefits on or before your target retirement date. When you retire, you can elect to receive your DROP account as a lump-sum payment, as installment payments, roll the account to an IRA, or a combination of these options. The installment payout period cannot be longer than 10 years or the life expectancies of you and your spouse, whichever is less. If you elect installment payments, these payments will not be eligible to receive any cost-of-living adjustments and interest will be credited monthly during the payout period. The interest rate will be credited monthly and will be set at the current actuarial rate adopted by the Retirement Board.
- You are always fully vested in your DROP account balance.

How does the Retirement Board determine the DROP interest rate?

The Retirement Board determines the DROP interest rate for a fiscal year after reviewing the performance of the Plan's entire investment portfolio for the last five years. The interest rate is based on the prior five year moving average of net market returns of the retirement system investments.

The Retirement Board is authorized to reduce the annual interest crediting rate up to 3%, if necessary, to maintain DROP's cost neutrality.

Example of a DROP Account

For example, suppose you are a member with 30 years of service and you elect to receive your $2,200 service retirement benefit as an unmodified allowance. On September 1, 1999, you join DROP, and your DROP participation will end when you retire from the Plan on September 1, 2004 . Here's what happens:

- The Plan credits your $2,200 service retirement benefit to your DROP account every month from September 1, 1999, until August 31, 2004. (This amount may increase with any Cost Of Living Adjustment (COLA) increases between September 1, 1999 until August 31, 2004, but this example assumes 60 monthly payments of $2,200.) During your DROP participation, this means $132,000 (60 months times $2,200) will be deposited into your DROP account.
- These amounts earn interest during your DROP participation. For this example, let's suppose that the interest rate is a constant 7% per annum. Interest is credited each month, meaning your DROP account will earn $24,361 in interest by your retirement date.
- When you leave City employment on August 31, 2004, the Plan begins paying you the $2,200 monthly benefit plus any COLA increases you were entitled to as of your DROP participation date. You also receive the value of your DROP account balance as a lump-sum, as installment payments, a rollover to an IRA, or as a combination of these options.

How do I apply for DROP?

Any time after you meet the age and service requirements to retire under the Plan, you can consider beginning your participation in DROP as long as you are still working for the City. Because DROP participation may have a significant impact on your retirement benefit and your employment with the City, you should consider this option carefully. Discuss it fully with a financial advisor and with a Retirement Benefits Counselor. Because your election of when to retire may have significant consequences, the Board wants you to take the decision very seriously.

Obtain a DROP information packet from the Retirement Office and read it carefully. If you want to apply for DROP, call the Retirement Board at (559) 498-1341 to schedule an appointment with a Retirement Benefits Counselor to discuss your options and the potential effect on your benefit.

If you decide to proceed and elect to participate in DROP, you must sign a waiver, indicating that:

- you considered this choice carefully,
- you are aware of the possible effect on your retirement benefit, and
- you agree to leave City employment not later than 10 years after you enter the DROP program

How does DROP participation affect retirement benefits?

When you participate in DROP, the Plan treats you as if you are retired for purposes of calculating your monthly retirement benefit. Any service you earn with the City after you join DROP and any salary increases after that date are not used in calculating your monthly retirement benefit. Instead, the Plan calculates your benefit using salary and service credit as of the date you join DROP.

When you leave City employment and end your DROP participation, your retirement benefit consists of both the monthly retirement benefit described above and a distribution of the balance in your DROP account. You can elect to receive your DROP account as a lump-sum, as installment payments, as rollover to an IRA or a combination of these options.

How does DROP affect other non-retirement benefits?

While you're participating in DROP, you remain eligible for all benefits (except retirement benefits) available to active employees that you were eligible to receive before you joined DROP.

What should I consider when deciding if I should join DROP?

You should consider DROP participation very carefully. Here are some questions you may want to ask yourself:

- Do I expect my salary to increase substantially during the DROP participation period and therefore give me a substantially increased retirement benefit if I don't join DROP?
- If I don't join DROP and continue to earn service credits, will the extra years of service and increased age make a significant difference to my retirement benefit?
- Can I be sure I will be ready to leave City employment in 10 years (or less)?
- What are the tax consequences, both now and when I actually retire and leave City employment? Keep in mind that you may suffer tax consequences if you take a lump-sum distribution before age 59½. Consult a tax advisor for complete information.
- Do I want part of my total retirement benefit paid as a lump-sum? Does my spouse agree?
- Will I be satisfied with the interest rate credited to my DROP account?

What happens if I leave before 10 years in the DROP?

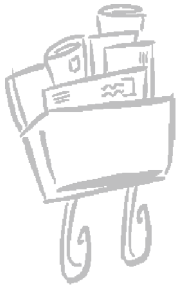
You may leave City employment voluntarily before 10 years in the DROP. If you do, the Plan begins paying you the monthly benefit earned before you joined DROP. You also are eligible to select a DROP distribution option. You will also begin to receive your service retirement benefits and your DROP account if you involuntarily leave City employment because of a layoff, reduction in force, or because you are discharged.

What happens if I die after I join DROP but before my retirement date?

If you die before receiving your DROP benefit and if your beneficiary is your surviving spouse, children who are younger than age 18 or your parents who are financially dependent upon you, your beneficiary has the same payment options that were available to you – either a lump-sum payment or installment payments. If your beneficiary is someone else, the value of your DROP account will be paid as a lump-sum. Therefore, it is important for you to keep your beneficiary designation up to date.

What happens if I become disabled while participating in DROP?

If you become disabled while participating in DROP, you can apply for disability retirement benefits. If the Board approves your application, your disability benefit will equal the monthly service retirement benefit amount being credited to your DROP account. You will also be eligible to select a DROP distribution option.



Post-Retirement Supplemental Benefit (PRSB) Program

What is the Post-Retirement Supplemental Benefit?

Effective January 1, 1999, the PRSB Program was implemented. The purpose of the Program is to provide assistance to retirees to pay for various post-retirement expenses. Annually, after an actuarial study of the Plan has been completed, the Retirement Board will review the availability of surplus earnings in the Plan and determine whether a benefit can be paid to eligible PRSB recipients. If the Board declares a surplus, PRSB benefit payments will be calculated for eligible recipients, and payments for the following calendar year will begin in January.

The payment of a PRSB benefit in any year is dependent on the presence of a Board declared surplus in the previous year. The PRSB benefit can be increased, reduced or eliminated from one year to the next, so you should plan and be prepared for such an event.

Who are eligible PRSB recipients?

All retirees receiving service retirement or disability benefits are eligible recipients. Also, beneficiaries receiving death benefits are eligible as well. If a death benefit is payable to more than one beneficiary, the PRSB benefit will be divided among the beneficiaries in the same ratio that the death benefit is payable.

Former members who withdrew their contributions from the Plan, former spouses of members, and DROP participants currently employed by the City are not eligible to receive PRSB benefits.

Divorce

What happens to my Plan benefits if I divorce?

Generally, Plan benefits are available only to members, qualified spouses and beneficiaries; however, the Retirement Board will recognize a Domestic Relations Order (DRO). A DRO is a court order that awards all or a portion of a member's benefit to the member's former spouse and/or children. **An order is not a DRO if it entitles the former spouse and/or children to benefits not provided by the Plan or to benefits of a greater actuarial value than the member's benefit**.

How can my benefit be divided?

The Municipal Code offers two methods for dividing your benefit. **To avoid incurring unnecessary attorney fees and time delays, you are encouraged to submit draft orders to the Retirement Office for review before the court approves the order. The Retirement Office also has sample orders that your attorney can review in drafting an order. However, in no event can the Retirement Office provide you or the former spouse with legal or tax advice.**

The two methods set forth in the Code for dividing your benefit are the Separate Account Option or the Combined Account Option.

What is the Separate Account Option?

This option allows the former spouse some control over his/her share of your benefit. Under this option, you and the former spouse divide your contributions and interest and years of service into two separate accounts. The former spouse can request a refund of his/her share of your accumulated contributions and interest or file for retirement, provided both you and he/she are at least retirement age.

What are the advantages to the former spouse of the Separate Account Option?

1. The former spouse does not have to rely on you to determine when benefits will be paid to the former spouse. For example, a former spouse can elect to receive a refund of his/her share of contributions and interest while you continue working for the City. Alternatively, if you have completed five or more years of service at the time of dissolution and both you and the former spouse are at least age 55, the former spouse can retire and receive benefits, regardless of whether or not you retire.

2. Under this option the former spouse can name a beneficiary for the benefits credited to his/her account in certain circumstances.

3. If you die before retiring, the former spouse still may receive benefits for his/her lifetime.

Are there any disadvantages to the former spouse if he/she elects the Separate Account Option?

1. If the member has not completed five or more years of service at the time of dissolution, the former spouse is only entitled to receive a refund of his/her share of contributions and interest.

2. If the member has completed five or more years of service at the time of dissolution, the former spouse can elect to leave his/her share of contributions and interest on deposit with the Plan. The former spouse will not share in any increased value of the member's account, however, because the former spouse's benefit is frozen at the date of separation of the divorcing parties.

What is the Combined Account Option?

This is a more traditional method of dividing your benefit. The former spouse is entitled to a court specified share of the community property portion of your benefit. The community property portion of your benefit is determined by how long you were married while you worked for the City.

What are the advantages to the former spouse of the Combined Account Option?

1. The former spouse participates in any future increase in your retirement benefit, including pay raises and promotions.

2. The former spouse can name a beneficiary to receive his/her share of benefits if you survive the former spouse.

3. The former spouse can elect to have benefits actuarially recalculated so that benefits will be payable for his/her lifetime.

Are there any disadvantages to the former spouse if he/she elects the Combined Account Option?

1. The former spouse has no control over the timing of receipt of benefits. He/she does not receive any payment from the Plan until you choose to retire.

2. Under this option, the former spouse cannot elect a lump-sum refund of contributions and interest.

3. If you die before retiring, the only benefit payable to the former spouse is his/her community property share of the death benefits.

How does the choice of the method to divide my benefit affect me?

The divorce impacts your benefit by assigning a portion of your benefit to your former spouse. Once this division is made, the choice by you and your former spouse of either the separate account option or the combined account option may not affect the benefits payable to you, but we encourage you to obtain legal counsel to assist you in making the choice.